

Message Text

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ACTION STR-04

INFO OCT-01 IO-11 ISO-00 STRE-00 INRE-00 SSO-00 NSCE-00

USIE-00 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00 EB-07

FRB-03 H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05

PA-01 AID-05 CIEP-01 SS-15 ITC-01 TRSE-00 PRS-01

SP-02 OMB-01 FEA-01 AF-06 ARA-06 EA-07 EUR-12 NEA-10

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SUBJ: TARIFF FORMULA -- INITIAL U.S. NEGOTIATING STRATEGY

REF: MTN GENEVA 1473

1. IN LIGHT OF FURTHER DISCUSSIONS WITH OTHER DELEGATIONS
AND OUR OWN FURTHER CONSIDERATION OF TACTICAL ISSUES AFFECTING
UNITED STATES TARIFF NEGOTIATING STRATEGY, US MTN DEL WISHES
TO SUPPLEMENT REFTEL TO EMPHASIZE TWO POINTS: FIRST, THE
TACTICAL IMPORTANCE WE ATTACH TO A FRACTIONAL "X" FACTOR AND
A SUBSTANTIAL LINEAR FACTOR IN THE UNITED STATES FORMULA
WHICH WILL BE TABLED LATER THIS MONTH; AND SECOND, THE
TACTICAL ADVANTAGES TO BE GAINED FROM TAKING AN AMBIGUOUS
POSITION ON THE QUESTION OF A TARIFF FLOOR.

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2. RECENT CONVERSATIONS WITH OTHER DELEGATIONS INDICATE

THAT THE JAPANESE MAY ABANDON THEIR OTHER HYPOTHESES IN FAVOR OF $Y = X$ ITERATED THREE TIMES AND THAT THE CANADIANS MIGHT EXCEPT A $Y = X$ APPROACH IF ADEQUATE ADJUSTMENTS WERE MADE FOR REDUCING TARIFFS BELOW 5 PERCENT. THUS, ALL THREE OF THE OTHER LIKELY FORMULA COUNTRIES MAY BE ALIGNED IN FAVOR OF AN X FACTOR AND AGAINST A LINEAR FACTOR. IT WOULD BE UNWISE TACTICS, IN OUR VIEW, FOR THE UNITED STATES TO TABLE A FORMULA (WHICH AT THIS INITIAL STAGE IS ONLY AN OPENING NEGOTIATING POSITION) WHICH GIVES THE OTHER COUNTRIES WHAT THEY ARE LOOKING FOR (I.E., THE FULL X FACTOR) KNOWING THEY WILL OPPOSE THE SUBSTANTIAL LINEAR FACTOR WHICH WE WANT. EVEN IF WE ARE ULTIMATELY PREPARED TO ACCEPT A FULL X FACTOR, WE SHOULD FORCE THE OTHER COUNTRIES TO PAY US TO MOVE TO THAT POSITION.

3. FROM A TACTICAL STANDPOINT, THE BEST UNITED STATES FORMULA APPROXIMATES $Y = 50 + .25X$ -THAT IS TO SAY, A FORMULA WHICH STARTS WITH A HIGHER LINEAR ELEMENT THAN WE ULTIMATELY EXPECT (STARTING AT 50 AND COMING DOWN TO, SAY, 35 OR 40) AND A LOWER X FACTOR (STARTING AT $.25X$ AND MOVING UP TO A FULL X FACTOR - OR EVEN A MULTIPLE X FACTOR, E.G., $2X$). THIS TYPE OF FORMULA WOULD PROVIDE US WITH THE REQUISITE DEGREE OF FLEXIBILITY AND LEVERAGE TO APPLY DURING THE BARGAINING PROCESS.

4. TO BEGIN WITH A HIGHER X FACTOR SIMPLY FORCES THE FORMULA NEGOTIATIONS TO CENTER ON THE LINEAR ELEMENT (WHICH THE EC AND JAPANESE WILL WANT TO REDUCE). THUS OUR BARGAINING LEVERAGE WOULD BE DISSIPATED (WITHOUT GETTING ANYTHING FOR IT), REDUCING THE LIKELIHOOD OF ACHIEVING ULTIMATE AGREEMENT ON A FORMULA WHICH WE WOULD FIND ADVANTAGEOUS (E.G., 35 OR $40 + X$).

5. ON THE OTHER HAND, WE DO NOT BELIEVE IT IS WISE TO BEGIN A FORMULA THAT CONTAINS ONLY LINEAR REDUCTIONS. WE THINK THAT THERE IS GREAT NEGOTIATING VALUE TO SIGNAL THE EC THAT THERE HAS BEEN A BREAK IN THE THEOLOGICAL BARRIER AND THAT THE U.S. IS PREPARED TO ACCEPT AN ELEMENT OF HARMONIZATION IN AN AGREED TARIFF-CUTTING FORMULA. TO BEGIN WITH SOME SMALLER DEGREE OF HARMONIZATION THAN WE ARE PREPARED TO

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ACCEPT WILL ENTICE OTHER DELEGATIONS INTO SERIOUS NEGOTIATIONS ON THE FORMULA STRUCTURE, BY SIGNALLING OUR INTEREST AN ULTIMATE AGREEMENT COMBINING HARMONIZATION WITH DEEP OVERALL REDUCTIONS.

6. THE SAME SORTS OF CONSIDERATIONS SHOULD GOVERN OUR POSITION ON THE QUESTION OF A TARIFF FLOOR. THE EC CLEARLY WANTS A FLOOR IN ORDER TO MAINTAIN THE CXT. THE CANADIANS

OBVIOUSLY WANT TO AVOID A FLOOR IN ORDER TO ACHIEVE MAXIMUM REDUCTION IN LOW DUTY ITEMS. WE SHOULD POSITION OURSELVES BETWEEN THE TWO CAMPS TO SEE WHAT PEOPLE ARE WILLING TO PAY FOR US TO MOVE ONE WAY OR THE OTHER. ULTIMATELY WE MAY DECIDE TO ACCEPT A FLOOR, THOUGH PROBABLY A FLOOR SUBSTANTIALLY LOWER THAN 5 PERCENT AS ADVOCATED BY THE EC AND JAPANESE, AND WE MAY BE ABLE TO BRING THE CANADIANS ALONG TO AGREE TO THIS CONCLUSION. BUT WE SHOULD NOT START OUT WITH SOMETHING CLOSE TO OUR FINAL POSITION. FIRST WE SHOULD SEE WHAT SORT OF CONCESSIONS THE BARGAINING PROCESS WILL YIELD.

7. THEREFORE WE PROPOSE THE UNITED STATES STATE ITS VIEWS ON THIS SUBJECT ALONG THE FOLLOWING LINES: DEPENDING ON HOW THE ROUNDING AUTHORITY IS USED, APPLICATION OF THE Y EQUALS 50 PLUS .25X FORMULA COULD YIELD A ONE PERCENT FLOOR, A 0.5 PERCENT FLOOR OR NO FLOOR AT ALL. FOR EXAMPLE, APPLYING THE FORMULA TO A ONE PERCENT DUTY WOULD YIELD A NEW REDUCED DUTY (IGNORING ROUNDING) OF 0.4975 PERCENT. IF THE ROUNDING RULE IS APPLIED TO ROUND UP TO THE NEXT FULL PERCENTAGE POINT, THAT WOULD YIELD A ONE PERCENT DUTY OR, IN OUR EXAMPLE, NO REDUCTION AT ALL AND THUS AN IMPLICIT ONE PERCENT FLOOR. ALTERNATIVELY, IF THE ROUNDING RULE IS APPLIED TO ROUND UP TO THE NEAREST HALF A PERCENTAGE POINT THE NEW FLOOR WOULD BE .5 PERCENT. AS A THIRD ALTERNATIVE, IF THE ROUNDING RULE WERE APPLIED TO ROUND DOWN TO THE NEXT FULL PERCENTAGE POINT, OUR EXAMPLE WOULD YIELD A DUTY OF 0 PERCENT, OR NOT FLOOR AT ALL.

8. WE PROPOSE THAT THE UNITED STATES ACKNOWLEDGE THESE THREE POSSIBLE OUTCOMES AND STATE THAT WE ARE NOT PREPARED TO CHOOSE AMONG THEM AT THIS POINT, BUT WOULD BE INTERESTED TO RECEIVE THE VIEWS OF OTHER DELEGATIONS. THIS WOULD SIGNAL THE COMMUNITY THAT WE MIGHT BE PERSUADED TO ACCEPT A

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TARIFF FLOOR AND SIGNAL THE CANADIANS THAT EVEN IF WE WERE TO ACCEPT A FLOOR IT WOULD PROBABLY BE A LOW ONE. THUS, OUR BARGAINING LEVERAGE VIS-A-VIS BOTH COUNTRIES WOULD SEEM TO BE MAXIMIZED.

9. IN ADDITION, IT SHOULD BE KEPT IN MIND THAT WE VIEW Y EQUALS 50PLUS.25X AS SIMPLY AN OPENING NEGOTIATING POSITION.THE SAME ROUNDING QUESTIONS ARE RELEVANT WHEN APPLIED TO A PREFERRED FINAL FORMULA OF SOMETHING LIKE Y EQUALS40PLUS X. DEPENDING UPON ROUNDING, AN IMPLICIT FLOOR MIGHT BE ESTABLISHED AT .5 PERCENT OR ONE PERCENT AND ADOPTION OF A SLIGHTLY HIGHER FLOOR IS NOT RULED OUT (THOUGH NOT ENCOURAGED EITHER). WITH THIS FINAL OBJECTIVE IN VIEW, THEREFORE, UNITED STATES INTERESTS CONTINUE TO BE SERVED BY AN INITIAL POSITION WHICH IS AMBIGUOUS ON THE USE OF ROUNDING AUTHORITY AND, HENCE, ON

THE APPLICATION OF A FLOOR.

10. PRESUMABLY BOTH THE PRIVATE SECTOR ADVISORY GROUPS AND OUR CONGRESSIONAL ADVISORS HAVE BEEN INFORMED THAT THE UNITED STATES WILL BE TAKING A SERIES OF TACTICAL POSITIONS DURING THESE TARIFF NEGOTIATIONS THAT MAY BE INCONSISTENT WITH THE ADVICE WE HAVE RECEIVED BUT WHICH ARE ESSENTIAL TO ULTIMATELY ACHIEVING AGREED U.S. OBJECTIVES. MOREOVER, WE BELIEVE ULTIMATE PRIVATE SECTOR/CONGRESSIONAL CRITICISM IS MORE LIKELY IF WE DO NOT TAKE STRONG BARGAINING POSITIONS ALONG THE WAY. CONSEQUENTLY, WE HOPE THE UNITED STATES POSITION AS SET OUT IN THE MARCH 23 MEETING WILL BE GOVERNED PRINCIPALLY BY LONGER TERM TACTICAL NEGOTIATING CONSIDERATIONS RATHER THAN HOW IT WILL LOOK TO DOMESTIC INTERESTS IN THE SHORT RUN. WALKER

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